

FEDERAL ELECTION COMMISSION		
MANUAL OF DIRECTIVES	COMMISSION DIRECTIVE	
	REVOKEs: September 17, 1993	NO: 53
		EFFECTIVE DATE: July 21, 2005
Implementation of OMB Circular A-123: Internal Control Review		
<p>I. <u>BACKGROUND</u></p> <p>The Federal Managers' Financial Integrity Act of 1982 amended the Accounting and Auditing Act of 1950 to "require ongoing evaluations and reports on the adequacy of systems of internal accounting and administrative control...." each year, beginning December 31, 1983, agencies must, on the basis of an evaluation, prepare a statement to the President and Congress that its systems of internal accounting and administrative internal control fully comply with the requirements set forth in the Act.</p> <p>In late 2004, the Office of Management & Budget (OMB) issued revisions to OMB Circular A-123, Management's Responsibility for Internal Control. This Directive follows the basic requirements of the revised guidelines in all material aspects.</p>		
<p>II. <u>POLICY AND OBJECTIVES</u></p> <p>A. <u>Policy</u> - All FEC components shall develop and maintain effective systems of internal control over their program operations and administrative functions. Primary agency component heads shall evaluate all internal control systems on an ongoing basis, take prompt action to correct weaknesses, and report all findings and corrective actions taken.</p> <p>B. <u>Objectives</u> - To provide reasonable assurance for:</p> <ul style="list-style-type: none"> (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting, and (3) Compliance with applicable laws and regulations 		

III. CONDUCTING THE RISK ASSESSMENT

Informal risk assessments are the mechanisms with which an agency can quickly determine the relative potentials for loss due to insufficient internal controls or the absence of such.

The emphasis by management will be to review programs which the self-performed internal control reviews/ risk assessments themselves indicate most likely require further review.

IV. CONDUCTING THE INTERNAL CONTROL REVIEW

For the purposes of A-123, internal control reviews and risk assessments will be conducted yearly under the authority of the Staff Director. Based upon the results and recommendations of the Managers after their assessments, the Staff Director determines whether to direct that intermediate corrective action(s) be taken, or to recommend an IG review, request an audit, or take no further action.

Internal Control Review Reporting

ICR reports will be prepared by the responsible management official within 30 days of completion of the review and transmitted to the Deputy Staff Director for Management, and then to the Staff Director. Reports will contain an identification of weaknesses within the internal control system and recommendations for corrective action, with a brief cost-benefit analysis weighing the cost of any recommended improvements with the expected benefits.

As a result of the ICR, the following recommendations may occur:

- (1) Take no further action;
- (2) Take improvement actions recommended by the manager;
- (3) Establish increased or improved internal control monitoring procedures;
- (4) Develop and conduct training programs for the staff;
- (5) Issue clarifying instructions;
- (6) Modify procedures or documents;
- (7) Recommend the acquisition of additional resources, or the reallocation of existing Commission resources.

The following factors should be evaluated when conducting Risk Assessments and Internal Control Reviews:

A. Analyses of Inherent Risk

The second step of the evaluation process is a determination of the inherent potential for fraud, waste, or abuse due to the nature of the activity itself. Factors to be considered are:

- purpose and characteristics
- budget allocation
- degree of centralization
- prior reviews
- management responsiveness
- other special concerns

The following characteristics will be noted, since they tend to contribute to the **possibility** of fraud, waste and abuse by their very nature:

- broad or vague legislative authority
- cumbersome regulatory requirements
- high degree of complexity
- existence of third party beneficiaries
- activities involving the payment of entitlement monies (i.e., matching funds)
- activities operating under severe time constraints
- activities involving the handling of cash receipts
- activities involving the granting of authority, certifications, or enforcement
- activities involving the direct obligation of agency funds such as purchasing and contracting
- activities involving the indirect obligation of agency funds such as FEC sponsored conferences, workshops, and seminars
- activities involving independent obligating authority such as depositions and FOIA.

B. Preliminary Evaluations of Internal Control

The third step will be to make a preliminary judgment regarding the existence and adequacy of internal control over the specific programs and administrative functions. An in-depth review of the existing controls is not appropriate at this stage. The managers will make a judgment based on perceptions of the existence and functioning of safeguards that protect the program resources from fraud, waste or abuse. Judgment will be based on a working knowledge of the program.

C. The Internal Control Review

Each program or administrative function assessed will receive an overall rating (e.g., highly vulnerable; moderately vulnerable, permitting less intensive and less frequent Internal control review; absence of risk; etc.). Based on this rating, the program manager will produce a list of programs or functions to review.

A summary and analysis of completed assessments which find the need for (and include the timing of) any subsequent action will be documented and transmitted to the Staff Director, by August 15th of each year if the proposed corrective actions have potential budgetary impact (all proposed actions must be reported by August 15th of each year for inclusion in the annual PAR, if necessary.) These recommendations will be based in part on the degree of risk for the programs and functions assessed, resource availability, management priorities, and other management initiatives under way.

Examples of subsequent recommended action might consist of:

- (a) Scheduling an external source to conduct a internal control review;
- (b) Requesting an audit by the Inspector General (OIG);
- (c) Taking no further action for reasons cited;
- (d) Taking corrective action(s) recommended by the manager(s).

Problems or weaknesses requiring immediate corrective action will be noted in the Manager's annual statement of assurance to the Staff Director or General Counsel.

Documentation of assessments will be maintained for a period of at least two years to provide a permanent record.

V. SCHEDULING & TAKING NECESSARY CORRECTIVE ACTIONS

The manager of the program and/or administrative function which has been reviewed or audited shall submit within 30 days a memorandum to the Deputy Staff Director for Management, who shall submit an appropriate recommendation for action to the Staff Director. This memorandum shall detail a plan for implementation of the recommendations made and target dates for completion of the necessary actions. Planning & Management will monitor and report to the Deputy Staff Director for Management and Staff Director whether the corrective measures are implemented as scheduled.

VI. Deadlines

Internal Control Review and Annual Assurance Letters are due to the Deputy Staff Director for Management by August 15, 2005.

This Directive was approved by the Commission on a no-objection vote basis on July 21, 2005.

A handwritten signature in black ink, appearing to read "James A. Pehrkon". The signature is fluid and cursive, with a large, stylized "J" at the beginning.

James. A. Pehrkon
Staff Director

SECTION 2. SAMPLE ICR AND ASSURANCE LETTERS

Following the guidelines established in Section 1, Program Managers are to perform continual risk assessments of their programs and activities. Managers should perform annual internal control reviews of any higher risk programs and report their findings to the Staff Director. The following letter is an example of an ICR Letter to the Staff Director:

August 31, 200X

Memorandum

To: James A. Pehrkon,
Staff Director

From:

Subject: _____ Division, A-123 Internal Control Review

In conformance with OMB A-123 and FEC Directive 53, this memo outlines the Internal Control Review performed by the _____ Division to provide reasonable assurance that there is no fraud, waste or abuse of federal resources. This Internal Control Review forms the basis for the assertions made in the annual assurance letter submitted to the Staff Director.

After assessing the inherent risks and general control environments of the Division's programs, the following activities/programs/functions were identified by management to be reviewed:

- Travel Expenses

Travel Expenses

For each FEC conference, the Assistant Staff Director signs off on travel papers. The Assistant Staff Director also reviews the travel vouchers to assure that the claims are correct. They are also checked and processed by Accounting. If the Assistant Staff Director has questions about an expense, she notifies accounting and the employee.

Identification of Deficiencies in Internal Control

(Categories include: Satisfactory Internal Control, or Control Deficiency, Reportable Condition, Material Weakness, Non-Conformance)

After assessing the risk and reviewing the internal control, I believe the internal control process for travel expenses is satisfactory, appropriate and adequate for the level of risk associated with the activity. I assure that there is no fraud, waste, or abuse occurring within this activity.

SAMPLE ASSURANCE LETTER

Following the guidelines established in Section 1, Program Managers are to submit Annual Assurance Letters to the Staff Director. The following letter is an example of an Assurance Letter to the Staff Director:

August 31, 200X

Memorandum

To: James A. Pehrkon,
Staff Director

From:

Subject: Annual A-123 Assurance Letter per Directive #53

As [state title and agency assessable unit or component], I am aware of the importance of internal control to safeguard agency assets and federal government funds from waste, fraud, abuse, and misuse. In compliance with the Federal Managers Financial Integrity Act (FMFIA), OMB Directive A-123, and FEC Directive #53, I reviewed the systems of internal control for my programs, and can give reasonable assurance that government funds or assets under my control are adequately safeguarded from potential waste, fraud, abuse, or misuse.

[or]

I reviewed the systems of internal control for my programs, and can give reasonable assurance that government funds or assets under my control are adequately safeguarded from potential waste, fraud, abuse, or misuse. **However, the following control deficiencies were noted: [list]. As a result, the following corrective action(s) has/have been or will be taken: [list].**

[or]

I reviewed the systems of internal control for my programs, and can give reasonable assurance that government funds or assets under my control are adequately safeguarded from potential waste, fraud, abuse, or misuse. **However, the following control deficiencies were noted: [list]. As a result, the following corrective action(s) has/have been or will be taken: [list]. In addition, I recommend that [an IG audit, or external audit] be performed for the following program(s): [list].**

[or]

I reviewed the system of internal control for my programs, and CANNOT give reasonable assurance that government funds or assets under my control are adequately safeguarded from potential waste, fraud, abuse, or misuse. **As a result, the following corrective action(s) has/have been or will be taken: [list]. In addition, I recommend that [an IG audit, or external audit] be performed for the following program(s): [list].**